R&S Managed Income Fund

Q4 2022 Commentary

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PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	9.1%	-0.9%	-7.0%	3.0%	11.5%	63.8%
FTSE All Share TR GBP	8.9%	5.1%	0.3%	7.1%	15.5%	88.2%
IA Mixed Investment 40-85% Shares	3.0%	0.8%	-10.1%	5.4%	14.7%	76.4%
Sector Quartile	1	4	1	3	3	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

Global stock and bond markets rebounded strongly in the final quarter of 2022. The prospect of peak inflation and a moderation in the Federal Reserve's tightening cycle were the main catalysts for the lift in the market's mood. Among key markets, the FTSE All-Share climbed 8.9%, the FTSE World Europe ex UK rose by 11.6%, while the S&P500 was down 1.1% in sterling terms, although the negative result was largely currency driven with the index returning 7.6% in US dollar terms. At the sector level, Energy, Basic Materials and Industrials were notable outperformers, while Consumer Discretionary, Technology and Real Estate lagged.

The US Federal Reserve raised its benchmark interest rate by 0.75% and then 0.5% in the quarter, taking the policy rate to 4.25%-4.5%. Despite an easing in inflation and moderation in the pace of tightening, rhetoric from the Fed remained hawkish. The European Central Bank and Bank of England increased interest rates by similar magnitudes, to policy rates of 2.5% and 3.5% respectively. Inflation figures generally drifted lower in the US, but remained extremely elevated in the UK and Europe. While there were indications of recession in UK and European PMI figures, data in the US tended to confound gloomier expectations for the economy.

Bond markets were more settled than the previous quarter, especially in the UK where the political backdrop stabilised following the change of Prime Minister and Chancellor of the Exchequer in October. UK 10-year bond yields eased back to 3.7% after starting the quarter at 4.1%, and corporate bond spreads narrowed to 163 basis points from 184 at the end of September. The US 10-year Treasury bond yield ended the quarter at 3.81%, down modestly from 3.83% although not without some volatility.

PERFORMANCE & ACTIVITY

The EdenTree Responsible and Sustainable Managed Income Fund increased in value during the quarter, generating a return of 9.1%. The Fund outperformed both its IA Mixed Investment 40-85% Shares sector, which returned 3.0% over the quarter and the FTSE All-Share Index, which returned 8.9%.

In contrast to last quarter, the Fund's high weighting to the UK proved the largest positive to relative returns, while its overseas equities exposure, which favoured Europe over the US, also made positive headway. The fixed income exposure added modest ground with mixed returns: the Fund's holdings in building society PIBS (permanent interest-bearing shares) were generally weaker due to concerns about the property sector, although this was offset by the Fund's wider exposure to UK preference shares and corporate bonds, with the latter benefiting from a more settled political backdrop.

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At the stock level, UK holdings in DS Smith, J Sainsbury and Legal & General added value. Each is underappreciated by the market and announced results that surprised to the upside. In contrast, telecoms holdings BT Group and Kier Group lost ground. From the overseas equities portfolio, financial holdings ABN AMRO and Talanx added value, as did electrical power and materials business Mersen. In contrast, healthcare stocks Roche Holdings and Zimvie drifted lower.

In terms of transactions, we took profits in a number of equities holdings that had performed strongly, including Bristol Myers-Squib, Jackson Financials, Mersen, Sanofi, HSBC and Greencoat UK Wind. The largest purchase was Barclays, a bank with a strong capital position, high cash flow generation and attractive valuation that is benefiting from the higher interest rate, rising bond yield environment. We also added a position in Atrato Onsite Energy, a listed infrastructure trust that specialises in rooftop solar.

OUTLOOK

Financial markets have had a positive start to 2023, in part driven by a softening of economic data in the US, where headline inflation has dropped back to 6.5%, while core inflation, a measure that excludes items over which Fed policy has little control, also edged down. While superficially this might seem like positive news, the market's response highlights what might be a persistent risk this year; namely, that the market underestimates the length of the tightening cycle. The job market remains tight and consumer spending is still relatively robust, despite cost-of-living pressures. Moreover, while the higher interest rate environment has certainly tightened conditions for borrowers (corporates and individuals), the full effects of tighter policy will take time to work through. Central banks will be keen not to relax policy too soon, even if rates plateau towards the middle of the year. While inflation is expected to come down due to re-basing effects, it is likely to be fairly sticky at 3-4%.

We therefore believe a value approach to equities should continue to perform well this year, and we continue to favour Europe and the UK over the US, although we have started to moderate the Funds' overweight exposure to UK equities. We are also reluctant to significantly increase fixed income exposure and are maintaining a relatively short duration and focus on quality, given the tightening cycle has further to run and increased default risk in the market. We also continue to favour green infrastructure, which offers a solid yield and has defensive characteristics. Overall, the Fund remains well diversified and are positioned to benefit from the prevailing economic backdrop.

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